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Ghazanfar Bank

Financial statements and audit report for the year 2020

Grant Thornton Afghanistan
Chartered Accountants and management consultants

Contents

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Independent auditors' report

Grant Thornton Afghanistan
House # 116, Street # 12
Quall e Fatehullah, Kabul,
Afghanistan
T: +93 202 202 475
M: +93 789 314 616,
www.grantthornton.af

To the Shareholders of Ghazanfar Bank

Opinion

We have audited the financial statements of **Ghazanfar Bank (the Bank)**, which comprise the statement of financial position as of December 31, 2020, and the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as of December 31, 2020, and its financial performance and its cash flows for the year then ended, in accordance with International Financial Reporting Standards (IFRSs) issued by the International Accounting Standards Board (IASB), the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank.

Basis for Opinion

We conducted our audit in accordance with International Standards on Auditing (ISAs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the International Ethics Standards Board of Accountants' *Code of Ethics of Professional Accountants (IESBA Code)* together with the ethical requirements that are relevant to our audit of the financial statements in Afghanistan, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the IESBA code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Responsibilities of Management and Those Charged with Governance for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with IFRSs issued by the International Accounting Standards Board (IASB), the requirements of the Law of Banking in Afghanistan and other laws and regulations issued by Da Afghanistan Bank, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Bank's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not a guarantee that an audit conducted in accordance with ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with ISAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- Conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

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Grant Thornton Afghanistan

Chartered Accountants

Grant Thornton GTA Afghanistan

Engagement Partner: Saqib Rehman Qureshi - FCA

Location: Kabul, Afghanistan

Date: 27-Mar-2021

GHAZANFAR BANK
STATEMENT OF FINANCIAL POSITION
AS AT DECEMBER 31, 2020

	Notes	2020	2019
		AFN '000	
ASSETS			
Cash and cash equivalents	5	**6,890,521**	4,950,867
Placements	6	**1,225,890**	2,227,099
Investments	7	**1,813,364**	361,093
Loans and advances	8	**4,364,717**	2,876,288
Loans to financial institutions		-	70,000
Property and equipment	9	**385,215**	346,813
Intangible assets	10	**30,507**	57,351
Other assets	11	**1,369,472**	1,105,690
Total assets		**16,079,687**	11,995,201
EQUITY AND LIABILITIES			
EQUITY			
Authorised capital			
126,700 ordinary shares (2019: 1,247,800) of AFN 10,000 each (2019: AFN 10,000)		**1,267,000**	1,247,800
Issued, subscribed and paid-up share capital	12	**1,267,000**	1,247,800
Capital Reserves	13	**27,789**	27,789
Retained earnings		**475,419**	327,310
Revaluation (deficit)/ surplus on financial instruments at FVOCI		**(24,230)**	912
Total equity		**1,745,978**	1,603,811
LIABILITIES			
Deposits from customers	14	**12,228,905**	10,181,286
Deposits from financial institutions	15	**1,855,670**	32,008
Other liabilities	16	**96,495**	67,894
Lease liability	17	**99,286**	96,390
Deferred tax liability		-	228
Provision for taxation		**53,353**	13,584
Total liabilities		**14,333,709**	10,391,390
Contingencies and commitments	18		
Total equity and liabilities		**16,079,687**	11,995,201

The annexed notes from 1 to 30 form an integral part of these financial statements.

GTA

Chief Financial Officer

Chief Executive Officer

Chairman

GHAZANFAR BANK
STATEMENT OF COMPREHENSIVE INCOME
FOR THE YEAR ENDED DECEMBER 31, 2020

	Notes	2020	2019
		------------- AFN '000	-------------
Interest income		**456,031**	430,131
Interest expense		**(48,410)**	(44,734)
Net interest income	19	**407,621**	385,397
Fee and commission income		**259,322**	186,855
Fee and commission expense		**(6,677)**	(7,966)
Net fee and commission income	20	**252,645**	178,889
Income from dealing in foreign currencies		**42,433**	14,809
		702,699	579,095
Other income	21	**89,333**	63,926
Impairment allowances and charge off	8.7	**(84,105)**	(62,283)
(Loss)/ Gain on sale of securities		**(11,960)**	4,332
Employee compensation	22	**(130,172)**	(132,595)
Operating lease expenses		**(692)**	(271)
Finance cost on lease liability	17	**(9,392)**	(12,393)
Depreciation	9.4	**(47,318)**	(49,485)
Amortization		**(26,708)**	(22,523)
Administrative expense	23	**(253,728)**	(225,847)
		(564,075)	(501,065)
Profit before tax		**227,957**	141,956
Taxation	24	**(60,648)**	(12,402)
Profit after tax		**167,309**	129,554
Other comprehensive income			
Items to be reclassified subsequently to profit or loss			
- Unrealised (loss)/ gain on investments classified at fair value through other comprehensive income		**(31,428)**	1,140
- Related deferred tax		**6,286**	(228)
		(25,142)	912
Items not to be classified subsequently to profit & loss		**-**	-
Total comprehensive income for the period		**142,167**	130,466

The annexed notes from 1 to 30 form an integral part of these financial statements.

GTA

Chief Financial Officer | Chief Executive Officer | Chairman

GHAZANFAR BANK
STATEMENT OF CASH FLOW
FOR THE YEAR ENDED DECEMBER 31, 2020

	Notes	2020	2019
		------------ AFN '000 ------------	
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**227,957**	141,956
Adjustments for:			
Net impairment loss on financial assets	8.7	**84,105**	62,283
Gain on disposal		-	16
Loss on disposal of investment in associate		-	17,608
Finance cost on lease liability	17	**9,392**	-
Exchange gain on lease liability	17	**(113)**	-
Fixed assets written off during the year	9.1	**1,180**	-
Intangible assets written off during the year		**135**	-
CWIP expensed out	9.2	**16**	-
Depreciation	9.4	**47,318**	49,485
Amortization	10	**26,708**	22,523
		396,699	293,871
Increase in current assets			
Loans and advances		**(1,572,534)**	10,211
Loans to financial institutions		**70,000**	(70,000)
Other assets		**(263,782)**	45,981
		(1,766,316)	(13,808)
Increase in current liabilities			
Deposits from customers		**2,047,619**	(69,084)
Deposits from financial institutions		**1,823,662**	32,008
Other liabilities		**28,601**	38,062
		3,899,882	986
Net cash generated from operations		**2,530,265**	281,049
Tax paid		**(21,108)**	-
Net cash generated from operating activities		**2,509,157**	281,049
CASH FLOWS FROM INVESTING ACTIVITIES			
Purchase of property and equipment	9.1	**(19,961)**	(2,583)
Proceeds from disposal of property and equipment		-	98
Capital work in progress	9.2	**(7,837)**	(8,898)
Placements - net		**1,001,209**	145,166
Proceeds from disposal of investment in associate		-	1,938
Investments - net		**(1,477,413)**	(203,325)
Net cash used in investing activities		**(504,003)**	(67,603)
CASH FLOWS FROM FINANCING ACTIVITIES			
Repayment of lease liability	17	**(65,500)**	(25,908)
Dividend paid		-	(96,500)
Net cash used in financing activities		**(65,500)**	(122,408)
Net decrease in cash and cash equivalents		**1,939,654**	91,038
Cash and cash equivalents, beginning of period		**4,950,867**	4,859,829
Cash and cash equivalents at the end	5	**6,890,521**	4,950,867

The annexed notes from 1 to 30 form an integral part of these financial statements.

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Chief Financial Officer | **Chief Executive Officer** | **Chairman**

GHAZANFAR BANK
STATEMENT OF CHANGES IN EQUITY
FOR THE YEAR ENDED DECEMBER 31, 2020

	Issued, subscribed and paid-up share capital	Capital Reserves	Retained Earnings	Revaluation surplus/ (deficit) on financial instruments at FVOCI	Total
	.... AFN '000			....	
Balance as at December 31, 2018	1,247,800	21,451	300,594	-	1,569,845
Profit for the period	-	-	129,554	-	129,554
Dividend Distribution	-	-	(96,500)	-	(96,500)
Contingency reserve fund	-	6,338	(6,338)	-	-
Other comprehensice income	-	-	-	912	912
Balance as at December 31, 2019	**1,247,800**	**27,789**	**327,310**	**912**	**1,603,811**
Profit for the period	-	-	167,309	-	167,309
Issuance of Bonus Share	19,200	-	(19,200)	-	-
Other comprehensive loss	-	-		(25,142)	(25,142)
	19,200	-	148,109	(25,142)	142,167
Balance as at December 31, 2020	**1,267,000**	**27,789**	**475,419**	**(24,230)**	**1,745,978**

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The annexed notes from 1 to 30 form an integral part of these financial statements.

Chief Financial Officer

Chief Executive Officer

Chairman

1 STATUS AND NATURE OF BUSINESS

Ghazanfar Bank ("the Bank") is a commercial bank incorporated under the Law in Afghanistan. The registered office of the bank is located at Wazir Akbar Khan Street, Sher Pur, District 10, and Kabul, Afghanistan.

The Bank obtained business license from Afghanistan Investment Support Agency (AISA) bearing license no: D-29098 renewed in 2016 and is registered as a limited liability company. The Bank commenced its operations on March 1, 2009 under the license for commercial banking issued by the Da Afghanistan Bank (DAB) under the Law of Banking in Afghanistan. Currently, the Bank is being operated with 17 branches with Islamic banking operations (2019: 14 branches with Islamic banking operations) in different provinces of Afghanistan and number of employees are 413 (2019: 350) at the year end.

2 STATEMENT OF COMPLIANCE

2.1 These financial statements have been prepared in accordance with International Financial Reporting Standards (IFRS) issued by the International Accounting Standards Board (IASB), the requirements of the Law of Banking in Afghanistan, other laws and regulations issued by Da Afghanistan Bank. In case requirements differ, the provisions of the Law of Banking in Afghanistan and regulation issued by DAB will prevail.

Da Afghanistan Bank (DAB) vide its circular no. E-02 dated April 9, 2020 deferred the applicability of IFRS 9 "Financial Instruments" till July 2021. Accordingly, the requirements of these standards have not been considered in the preparation of these financial statements.

2.2 Standards, amendments and interpretations to published accounting standards that became effective in the current year

Following accounting standards and amendments became applicable in the current year.

- Definition of a Business (Amendments to IFRS 3)
- Definition of Material (Amendments to IAS 1 and IAS 8)
- Interest Rate Benchmark Reform (Amendments to IFRS 9, IAS 39 and IFRS 7)
- Amendments to References to the Conceptual Framework (Various Standards)
- COVID-19 Rent Related Concessions (Amendments to IFRS 16)

2.3 Standards, interpretations and amendments to published accounting standards that are not yet effective

Standards, Interpretations and Amendments	Effective date (accounting periods beginning on or after)
- Interest Rate Bechmark Reform: Phase 2 - Amendments to IAS 39, IFRS 7, IFRS 4, IFRS 16, IFRS 9.	January 01, 2021
- References to the Conceptual Framework	January 01, 2022
- Proceeds before Intended Use (Amendments to IAS 16)	January 01, 2022

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- Annual Improvements to IFRS Standards 2018-2020 Cycle (Amendments to IFRS 1, IFRS 9, IFRS 16, IAS 41) — 'January 01, 2022

- Classification of Liabilities as Current or Non-current - Amendment to IAS 1 — January 01, 2023

The above standards, amendments and interpretations are not expected to have any material impact on the Bank's financial statements in the period of initial application.

3 BASIS OF PREPARATION

3.1 Basis of measurement

These financial statements have been prepared on the historical cost basis except as otherwise disclosed in accounting policies.

3.2 Use of critical accounting estimates and judgments

The preparation of financial statements in conformity with approved accounting standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and reported amounts of assets, liabilities, income and expenses. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods.

In particular, information about significant areas of estimation uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are described in the following:

a) Note 8 Provision against non-performing loans and advances to customers
b) Note 09 Depreciation rates for property and equipment
c) Note 10 Amortization rates for intangible assets
d) Note 24 Income taxes

3.3 Functional and presentation currency

These financial statements are presented in Afghani (AFN), which is the Bank's functional currency.

4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies adopted in the preparation of these financial statements are set out below. These policies have been consistently applied to all the years presented unless or otherwise state.

4.1 IFRS 16 Leases

IFRS 16 'Leases' replaces IAS 17 'Leases' along with three Interpretations (IFRIC 4 'Determining whether an Arrangement contains a Lease', SIC 15 'Operating Leases-Incentives'

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and SIC 27 'Evaluating the Substance of Transactions Involving the Legal Form of a Lease'). The adoption of this new Standard has resulted in recognition of a right-of-use asset and related lease liability in connection with all former operating leases except for those identified as low-value or having a remaining lease term of less than 12 months from the date of initial application.

The new Standard has been applied using the modified retrospective approach. There has been no impact on the opening equity upon adoption of IFRS 16. The comparative information for 2018 is reported under IAS 17 and is not comparable to the information presented for 2019. Right-of-use asset amounting to AFN 119,451 thousand has been recognized along with lease liability of AFN 119,451 thousand with remaining impact recognized in reversal of prepaid rent expense as of the date of adoption.

For contracts in place at the date of initial application, the Bank has elected to apply the definition of a lease from IAS 17 and IFRIC 4 and has not applied IFRS 16 to arrangements that were previously not identified as lease under IAS 17 and IFRIC 4. The Bank has elected not to include initial direct costs in the measurement of the right-of-use asset for operating leases in existence at the date of initial application of IFRS 16, being January 1, 2019. At this date, the Bank has also elected to measure the right-of-use assets at an amount equal to the lease liability adjusted for prepaid/ accrued lease payments that existed at the date of transition.

Instead of performing an impairment review on the right-of-use assets at the date of initial application, the Bank has relied on its historic assessment as to whether leases were onerous immediately before the date of initial application of IFRS 16. On transition, for leases previously accounted for as operating leases with a remaining lease term of less than 12 months and for leases of low-value assets the Bank has applied the optional exemptions to not recognize right-of-use assets but to account for the lease expense on a straight-line basis over the remaining lease term. The Bank did not had any finance lease. On transition to IFRS 16 the weighted average incremental borrowing rate applied to lease liabilities recognized under IFRS 16 was 10.48% to 12.26% per annum. The Bank has benefited from the use of hindsight for determining the lease term when considering options to extend and terminate leases.

Following accounting policy change has been adopted by the Bank pursuant to IFRS 16:

4.1.1 Leased assets

The Bank as a Lessee

For any new contracts entered into on or after January 1, 2019, the Bank considers whether a contract is, or contains a lease. A lease is defined as 'a contract, or part of a contract, that conveys the right to use an asset (the underlying asset) for a period of time in exchange for consideration'. To apply this definition the Bank assesses whether the contract meets three key evaluations which are whether:

a) The contract contains an identified asset, which is either explicitly identified in the contract or implicitly specified by being identified at the time the asset is made available to the Bank;

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b) The Bank has the right to obtain substantially all of the economic benefits from use of the identified asset throughout the period of use, considering its rights within the defined scope of the contract; and

c) The Bank has the right to direct the use of the identified asset throughout the period of use. The Ban assess whether it has the right to direct 'how and for what purpose' the asset is used throughout the period of use.

Measurement and recognition of leases as a lessee

At lease commencement date, the Bank recognizes a right-of-use asset and a lease liability on the balance sheet. The right-of-use asset is measured at cost, which is made up of the initial measurement of the lease liability, any initial direct costs incurred by the Bank, an estimate of any costs to dismantle and remove the asset at the end of the lease, and any lease payments made in advance of the lease commencement date (net of any incentives received).

The Bank depreciates the right-of-use assets on a straight-line basis from the lease commencement date to the earlier of the end of the useful life of the right-of-use asset or the end of the lease term. The Bank also assesses the right-of-use asset for impairment when such indicators exist. At the commencement date, the Bank measures the lease liability at the present value of the lease payments unpaid at that date, discounted using the interest rate implicit in the lease if that rate is readily available or the Bank's incremental borrowing rate.

Lease payments included in the measurement of the lease liability are made up of fixed payments (including in substance fixed), variable payments based on an index or rate, amounts expected to be payable under a residual value guarantee and payments arising from options reasonably certain to be exercised.

Subsequent to initial measurement, the liability will be reduced for payments made and increased for interest. It is remeasured to reflect any reassessment or modification, or if there are changes in in-substance fixed payments. When the lease liability is remeasured, the corresponding adjustment is reflected in the right-of-use asset, or profit and loss if the right-of-use asset is already reduced to zero. The Bank has elected to account for short-term leases and leases of low-value assets using the practical expedients. Instead of recognizing a right-of-use asset and lease liability, the payments in relation to these are recognized as an expense in profit or loss on a straight-line basis over the lease term.

On the statement of financial position, right-of-use assets have been included in property and equipment within operating fixed assets and lease liabilities have been disclosed on the face of the statement of financial position.

Extension options for leases

When the Bank has the option to extend a lease, management uses its judgement to determine whether or not an option would be reasonably certain to be exercised. Management considers all facts and circumstances including their past practice and any cost that will be incurred to change the asset if an option to extend is not taken, to help them determine the lease term.

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4.2 Cash and cash equivalents

For the purposes of cash flow statement, cash and cash equivalents comprise of cash and balances with central bank (unrestricted) and balances with other banks.

4.3 Financial instruments

Recognition, initial measurement and de-recognition

Financial assets and financial liabilities are recognized when the Bank becomes a party to the contractual provisions of the financial instrument and are measured initially at fair value adjusted by transactions costs, except for those carried at fair value through profit or loss which are measured initially at fair value. Subsequent measurement of financial assets and financial liabilities are described below.

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire, or when the financial asset and all substantial risks and rewards are transferred. A financial liability is de-recognized when it is extinguished, discharged, cancelled or expires.

Classification and subsequent measurement of financial assets and financial liabilities

For the purpose of subsequent measurement, financial assets other than those designated and effective as hedging instruments are classified into the following categories upon initial recognition:

- at fair value through profit or loss ("FVTPL")
- at fair value through other comprehensive income ("FVTOCI")
- at amortized cost
- Loans and receivables

All financial assets are subject to review for impairment at least at each reporting date to identify whether there is any objective evidence that a financial asset or a group of financial assets is impaired.

a) Classification, recognition and subsequent measurement of financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial recognition, these are measured at amortized cost using the effective interest method, less provision for impairment. The Bank's cash and cash equivalents, investments (other than held for trading), loans and receivables and other assets fall into this category of financial instruments.

The Bank determines allowance for impairment loans and advances in accordance with "Asset Classifications and Provisioning Regulation" issued by DAB in December 2017.

Loans and advances to customers

The outstanding principal of the advances are classified in accordance with the Asset Classification and Provisioning Regulation issued by DAB as follows:

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a) **Standard:** These are loans and advances, which are paying in a current manner or at most past due for the period of 1-30 days, fully secured and is supported by sound net worth, profitability, liquidity and cash flow of the obligor. Standard assets are sufficiently secured with respect to the repayment of both the principal amount and interest. An overdraft would be regarded as Standard if monthly interest payments and other charges are past due for 1-30 days, and there was regular activity on the account with no sign of a hard core of debt developing. The Bank does not maintain provision on standard loans.

b) **Watch:** These are loans and advances which are adequately protected but are potentially weak. Such an asset constitutes an unwarranted credit risk, but not to the point of requiring a classification of Substandard. The credit risk may be minor, and most instances, bank management can correct the noted deficiencies with increased attention. Further, all loans and advances which are past due by 31 to 60 days for principal or interest payments are classified as Watch. A provision is maintained in the books of account not less than 5% of value of such loans and advances.

c) **Substandard:** These are loans and advances which show clear manifestations of credit weaknesses that jeopardize the liquidation of the debt. Substandard loans and advances include loans to borrowers whose cash flows are not sufficient to meet currently maturing debts, loans to borrowers which are significantly undercapitalized, and loans to borrowers lacking sufficient working capital to meet their operating needs.

Further, all loans and advances which are past due by 61 to 120 days for principal or interest payments are also classified as Substandard. A provision is maintained in the books of account not less than 25% of value of such loans and advances.

d) **Doubtful:** These are loans and advances which display all the weaknesses inherent in loans and advances classified as Substandard but with the added characteristics that they are not well secured and the weaknesses make collection or liquidation in full, on the basis of currently available information, highly questionable and improbable. The possibility of loss is extremely high, but because of certain mitigating circumstances, which may work to the advantage and strengthening of the facility, its classification as an estimated loss is postponed until its more defined status is ascertained. Further all loans and advances which are past due by 121 to 480 days for principal or interest payments are also classified as Doubtful. A provision is maintained in the books of account not less than 50% of value of such loans and advances.

e) **Loss:** These are loans and advances which are considered uncollectible and of such little value that their continuation as recoverable facilities is not defensible. This classification does not imply that the facility has absolutely no recoverable value, but rather it is not practical or desirable to defer making full provisions for the facility even though partial recover in future may not be entirely ruled out. Loans and advances classified as Loss include those to bankrupt companies and insolvent firms with negative working capital and cash flow or those to judgment debtors with no means or foreclosable collateral to settle the debts. Further, all loans and advances which are past due over 481 days for principal and

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interest payments are classified as Loss. This category of loans shall be retained in bank balance sheet for the period of 6 month for recovery purposes and 100% loan loss provisioning should be made. After 6 months, they shall be immediately written off with the provisioning made.

b) Classification and subsequent measurement of financial liabilities

Financial liabilities are measured subsequently at amortized cost using the effective interest method, except for financial liabilities held for trading or designated at FVTPL, that are carried subsequently at fair value with gains or losses recognized in statement of comprehensive income. All derivative financial instruments that are not designated and effective as hedging instruments are accounted for at FVTPL.

4.4 Investment in equity instruments

Investment in equity instruments is carried at cost less impairment if any.

4.5 Loans and advances

Loans and advances are stated net of provisions against non–performing loans and advances. Specific and general provision are made based on an appraisal of the loan portfolio that takes into account Regulations and other directives issued by the Da Afghanistan Bank from time to time.

The provisions made / reversed during the year are charged to the statement of comprehensive income and accumulated provision is netted off against loans and advances. Loans and advances are written off when there is no realistic prospect of recovery or when the regulation requires.

In Murabaha transactions, the Bank purchases the goods through its agent or client and after taking the possession, sells them to the customer on cost plus profit basis either in a spot or credit transaction. Under Murabaha financing, funds disbursed for purchase of goods are recorded as 'Advance against Murabaha finance'. On culmination of Murabaha i.e. sale of goods to customers, Murabaha financing are recorded at the deferred sale price. Goods purchased but remaining unsold at the statement of financial position date.

4.6 Property and equipment

Owned

Property and equipment are stated at cost less accumulated depreciation and accumulated impairment losses thereon. Cost includes expenditure that is directly attributable to the acquisition of fixed assets.

Subsequent costs are included in the asset's carrying amount or are recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Bank and the cost of the item can be measured reliably. All other repairs and maintenance expenditures are charged to statement of comprehensive income during the financial period in which they are incurred.

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Gains and losses on disposal of fixed assets are recognized in statement of comprehensive income.

Land is not depreciated. Depreciation on all other fixed assets is calculated using the straight-line method to allocate their depreciable cost to their residual values over their estimated useful lives.

The depreciation method, residual values and useful lives of fixed assets are reviewed and adjusted (if appropriate) at each balance sheet date.

Depreciation

Depreciation is recognized in profit and loss account on straight-line basis from the month of use over the estimated useful lives of each part of an item of property and equipment since this most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful lives for the current and comparative periods are as follows:

-	Building	30 years
-	Furniture and fixture	4-10 years
-	Computer equipment	4 years
-	Vehicles	6 years
-	Office equipment	5 years
-	Right-of-use assets	3 -10 years

4.7 Intangible assets

Intangible assets include computer software which are capitalized on the basis of costs incurred to acquire and bring those to use for intended purpose. Subsequent expenditure on intangible asset is capitalized only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

These costs are amortized over their expected useful lives using the straight-line method from the date it is available for use since this most closely reflects the pattern of consumption of the future economic benefits embodied in the asset.

The estimated useful life of software is three to ten years.

Amortization methods, useful lives and residual values are reassessed at each financial year end and adjusted, if appropriate.

4.8 Impairment of non-financial assets

The carrying amounts of the Bank's non-financial assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

GTA

An impairment loss is recognized if the carrying amount of an asset or its cash-generating unit exceeds its recoverable amount.

The recoverable amount of an asset is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

4.9 Deposits

These are recorded at the amount of proceeds received.

4.10 Taxation

Income tax expense comprises of current and deferred tax. Income tax expense is recognized in the statement of comprehensive except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax

Current tax is the expected tax payable or receivable on the taxable income for the year (using tax rates enacted or substantively enacted at the balance sheet date), and any adjustment to tax payable in respect of previous years.

Deferred tax

Deferred tax is provided for using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized on temporary differences relating to: (i) the initial recognition of goodwill; (ii) the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit; and (iii) differences relating to investments in subsidiaries to the extent that they probably will not reverse in the foreseeable future.

Deferred tax is measured at tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4.11 Employee compensation

Short-term employee benefits are measured on an undiscounted basis and are expensed as the related service is provided.

GTA

4.12 Foreign currency transactions

Transactions in foreign currencies are translated to Afghani at exchange rates prevailing at the date of transaction.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated to Afghani at the exchange rate prevailing at that reporting date. Foreign currency differences arising on retranslation are recognized in statement of comprehensive income.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of transaction.

4.13 Interest income and expense

Mark-up /interest /return on advances and investments is recognized in the statement of comprehensive income using effective interest rate method, and in case of advances classified as doubtful or loss, mark - up is recognized on receipt basis. Mark-up /interest /return on rescheduled /restructured loans and advances and investments is recognized as permitted by DAB. Income from Murabaha is accounted for on a time proportionate basis over the period of Murabaha transaction. Gain or loss on sale of investments are recognized in statement of comprehensive income in the year in which these arise.

The effective interest method is a method of calculating the amortized cost of a financial asset or a financial liability and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period, to the net carrying amount of the financial asset or financial liability.

When calculating the effective interest rate, the Bank estimates cash flows considering all contractual terms of the financial instrument but does not consider future credit losses. The calculation includes all fees paid or received between parties to the contract that are an integral part of the effective interest rate, transaction costs and all other premiums or discounts.

4.14 Fee and commission

Fees and commission income include account servicing fees and sales commissions and are recognized as the related services are performed.

Fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

4.15 Lease payments

Payments under operating leases are recognized in statement of comprehensive income on straight line basis over the term of the lease. Lease incentives received are recognized as an integral part of the total lease expense, over the term of the lease.

GTA

4.16 Dividends

Dividend payments are recognized in the year in which these are approved by BOS and DAB with the appropriations to capital reserves required by Corporations and Limited Liability Companies Law of Afghanistan.

4.17 Provisions

Provisions for restructuring costs and legal claims are recognized when:

a) the Bank has a present legal or constructive obligation as a result of past events;
b) it is more likely than not that an outflow of resources will be required to settle the obligation; and
c) The amount has been reliably estimated.

Provision for guarantee claims and other off-balance sheet obligations is recognized when intimated and reasonable certainty exists to settle the obligations.

4.18 Off-setting

Financial assets and liabilities are set off and the net amount presented in the statement of financial position when, and only when, the Bank has a legal right to set off the amounts and intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

		Notes	2020	2019
			AFN '000	
5	**CASH AND CASH EQUIVALENTS**			
	Cash in hand	5.1	**915,930**	889,639
	Balances with banks	5.2	**5,974,591**	4,061,228
			6,890,521	4,950,867
5.1	**Cash in hand**			
	Local currency		**203,015**	196,992
	Foreign currencies		**712,915**	692,647
			915,930	889,639
5.2	**Balances with banks**			
	Balances with central bank			
	Local currency current accounts		**773,658**	1,211,851
	Local currency deposit account (Overnight deposit)		**38**	38
	Foreign currency current accounts		**3,210,528**	1,794,624
			3,984,224	3,006,513
	Balances with other banks (foreign/domestic)		**1,990,367**	1,054,715
			5,974,591	4,061,228

6 PLACEMENTS

These include short time deposits with foreign banks carrying interest rate ranging from 1.2% to 3.45% (2019: 2.40% to 5.40%) per annum.

		Notes	2020	2019
			AFN '000	
7	**INVESTMENTS**			
	Financial assets at fair value through OCI			
	- Investment in bonds	7.1	**14,864**	282,659
	- Investment in equity	7.2	**121,895**	-
			136,759	282,659
	Financial assets at fair value through profit or loss			
	- Investment in gold		-	78,434
	Financial assets at amortized cost			
	- Capital notes with DAB		**1,367,750**	-
	- Investment in bonds	7.3	**308,855**	-
			1,676,605	-
			1,813,364	361,093

7.1 This represent investment in Sovereign bond of Republic of Sri Lanka having coupon rate of 5.75% per annum with the maturity of April 18, 2023. This bond is listed on Singapore exchange (SGX). SHUAA Capital PSC UAE, investment advisor, is acting as the custodian of this investment.

7.2 This represents investment in equity market which are listed on NYSE and NASDAQ stock exchanges. SHUAA Capital PSC UAE is acting as the securities custodian of this investment. The fair value of each equity investment at the end of the reporting period is as follows:

Description	Shares outstanding	Market price/ share	Total market value (USD '000)	Total market value (AFN '000)
American Airlines	18,462	16.2	298	22,988
Chevron	3,122	85.3	266	20,539
EXXON Mobil	7,547	41.6	314	24,206
BP PLC	7,736	21.0	163	12,543
Carnival Corp	22,482	21.8	489	37,770
NIO INC	1,042	48.3	50	3,848
				121,895

GTA

7.3 This represent investment in Sovereign bonds of Turkey and Oman having coupon rates of ranging from 3.63% to 4.25% per annum. These investments have maturity ranging from June 8, 2021 to June 15, 2021. These bonds are listed on Multiple exchanges. SHUAA Capital PSC UAE, investment advisor, is acting as the custodian of this investment.

8 LOANS AND ADVANCES

	Notes	31 December 2020			31 December 2019		
		Gross amount	Impairment allowance	Carrying amount	Gross amount	Impairment allowance	Carrying amount
		.... AFN '000			.... AFN '000		
Conventional financing							
Running finance	8.1	2,634,384	(108,240)	2,526,144	1,952,111	(102,921)	1,849,190
SME loans	8.2	25,546	(24)	25,522	24,156	(29)	24,127
Term loans	8.3	821,008	(79,709)	741,300	339,182	(39,698)	299,484
		3,480,939	(187,973)	3,292,966	2,315,449	(142,648)	2,172,801
Islamic financing							
Murabaha	8.4	1,079,483	(7,732)	1,071,751	706,707	(3,220)	703,487
		4,560,422	(195,705)	4,364,717	3,022,156	(145,868)	2,876,288

8.1 The facility to meet working capital requirements carries interest ranging from 9% to 15% (2019: 9% to 15.5%) per annum. These facilities are extended for maximum period of twelve months and these are secured against personal guarantees and mortgage of residential and/or commercial properties of the borrowers.

8.2 These are extended to the Small and Medium Enterprises carry interest from 7% to 15% (2019: 6.5% to 15%) per annum with maximum period of Six years. These are secured against personal guarantees and mortgage of residential properties of the borrower.

8.3 These are term loan facilities extended to customers carries interest ranging from 5.5% to 15% (2019: 5.5% to 15%) per annum. These facilities are extended for maximum period of ten years. These are secured against personal guarantees, corporate guarantee, and mortgage of residential and/or commercial properties of the borrowers. These include loans and advances to SMEs amounting to AFN 257,513 thousands which are partially backed by Afghanistan Credit Guarantee Foundation (ACGF) and Development Finance Corporation (DFC-USAID) guarantees to the extent defined in agreement with them.

8.4 These represents murabaha agreements under which the Bank provided funds to meet capital and other requirements of the borrower on a fixed profit sharing basis ranging from 4.33% to 39% (2019: 1.6% to 32%). These facilities are extended for a maximum period of sixty months and secured against personal guarantees and mortgage of residential and/or commercial properties of the borrower. These include loans and advances amounting to AFN 290,107 thousands which are partially backed by Afghanistan Credit Guarantee Foundation (ACGF) guarantees to the extent defined in agreement with ACGF.

8.5 The credit quality of the loan and advances according to the Asset Classification and Provisioning Regulation is as follows:

GTA

	Standard	Watch	Sub-standard	Doubful	Loss	Total
			.... AFN '000			
As at 31-Dec-2020						
Conventional:						
Running finance	2,312,674	116,825	-	204,885	-	2,634,384
SME loans	25,448	-	98	-	-	25,546
Term loans	657,177	5,404	-	157,978	450	821,008
Islamic:						
Murabaha	1,064,072	-	-	15,411	-	1,079,483
	4,059,370	122,229	98	378,275	450	4,560,422
As at 31-Dec-2019						
Conventional:						
Running finance	1,746,269	-	-	205,842	-	1,952,111
SME loans	23,581	575	-	-	-	24,156
Term loans	180,080	386	158,716	-	-	339,182
Islamic:						
Murabaha	686,375	15,492	-	4,840	-	706,707
	2,636,305	16,453	158,716	210,682	-	3,022,156

	2020	2019
	AFN '000	
8.6 Impairment allowance on loans and advances		
Opening balance	145,869	214,616
Charge for the period / year	90,273	19,071
Reversal made during the period / year	(40,437)	(87,818)
Net impairment allowance on funded facilities	49,836	(68,747)
Closing balance	195,705	145,869
8.7 Net impairment allowance and charge off		
Net impairment allowance on funded facilities	49,836	(68,747)
Impairement allowance on receivables from FI's	34,086	-
Exchange loss / (gain) on currency translation	944	(5,980)
Net provision on accrued interest/ profit	(1,280)	246
Loan charged off during the period / year	519	136,764
Provisions on funded and non-funded facilities - Net	84,105	62,283

GTA

9 Property and equipment

	Notes	2020	2019
		AFN '000	
Property and equipment	9.1	239,783	244,954
Capital work-in progress	9.2	8,222	1,087
Right-of-use assets	9.3	137,210	100,772
		385,215	346,813

9.1 Property and equipment

Description	Land	Building	Furniture and fixtures	Computer equipment	Vehicles	Office equipment	Total
				AFN '000'			
Cost							
Balance as of December 31, 2018	35,362	201,245	50,223	94,015	88,253	49,583	518,681
Additions during the period	-	-	853	-	-	1,730	2,583
Transfer from capital work-in-progress	-	-	-	34,556	-	-	34,556
Disposals of during the period	-	-	(435)	(205)	(12)	(688)	(1,340)
Balance as at December 31, 2019	**35,362**	**201,245**	**50,641**	**128,366**	**88,241**	**50,625**	**554,480**
Additions during the year	-	-	6,512	4,920	2,729	5,801	19,961
Transfer from capital work-in-progress	-	-	428	114	-	144	686
Disposals of during the year	-	(299)	(12,003)	(4,366)	(853)	(5,532)	(23,053)
Balance as at December 31, 2020	**35,362**	**200,946**	**45,578**	**129,034**	**90,117**	**51,037**	**552,074**
Depreciation							
Balance as of December 31, 2018	-	38,752	37,001	87,957	84,107	34,976	282,794
Depreciation for the period	-	6,701	3,698	9,579	3,571	4,410	27,959
Adjustments on disposals	-	-	(363)	(204)	(12)	(648)	(1,226)
Balance as at December 31, 2019	**-**	**45,453**	**40,336**	**97,332**	**87,666**	**38,738**	**309,526**
Depreciation for the year	-	6,701	2,523	10,691	560	4,163	24,638
Adjustments on disposals	-	(58)	(11,086)	(4,373)	(848)	(5,508)	(21,873)
Balance as at December 31, 2020	**-**	**52,096**	**31,773**	**103,649**	**87,378**	**37,394**	**312,291**
Carrying Amount							
- December 31, 2020	**35,362**	**148,850**	**13,805**	**25,385**	**2,739**	**13,643**	**239,783**
- December 31, 2019	35,362	155,792	10,305	31,034	575	11,887	244,954
Depreciation rates		**3.33%**	**6% - 25%**	**25% - 50%**	**16% - 25%**	**15% - 50%**	

GTA

9.2 Capital work-in-progress includes the advances to suppliers for the purchase of different equipments and items held awaiting installation or issuance. The movement in the capital work-in-progress during the year is as follows:

	Note	2020	2019
		----------- AFN '000 -----------	
Opening balance		1,087	105,181
Additions during the year/ period		7,837	(60,214)
Transfer to property and equipment		(686)	(34,556)
Transfer to intangible assets		-	78,436
Expensed		(16)	-
Closing balance		8,222	1,087

9.3 Right-of-use assets

	Note	2020	2019
Cost:			
Balance as of January 1, 2020 upon adoption of IFRS 16		122,298	119,451
Additions during the year/ period		59,118	2,847
Balance as at December 31, 2020		181,416	122,298
Accumulated depreciation:			
Balance as of January 1, 2020 upon adoption of IFRS 16		21,526	-
Depreciation expense for the year/ period		22,680	21,526
Balance as at December 31, 2020		44,206	21,526
Carry amount as of December 31, 2020		137,210	100,772

9.4 Depreciation expense

	Note	2020	2019
Property and equipment		24,638	27,959
Right-of-use assets		22,680	21,526
		47,318	49,485

10 INTANGIBLE ASSETS

	Note	2020	2019
Cost			
Opening balance		104,132	25,696
Transfer from capital work-in-progress		-	78,436
Written-off	10.1	25,354	-
Closing balance		78,778	104,132
Amortization			
Opening balance		46,781	24,258
Amortization for the year/ period		26,708	-
Written-off		25,219	22,523
Closing balance		48,271	46,781
Carrying Amount		30,507	57,351
Useful life		3 years	3 years

10.1 This represents 20 non-qualified items with carrying value of AFN 135K removed from fixed asset register as per management decision.

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11 OTHER ASSETS

	Note	2020	2019
		AFN '000	
Restricted deposits with DAB	11.1	**1,059,646**	888,051
Prepayments		**66,600**	27,230
Receivable from Western Union		**22,432**	23,407
Profit receivable	11.2	**12,537**	36,544
Interest receivable		**8,737**	6,308
Security deposits		**26,211**	100,072
Cash call		-	20,914
Deferred tax		**6,058**	-
Receivable from financial institutions (FIs)	11.3	**163,316**	
Others		**3,935**	3,164
		1,369,472	1,105,690

11.1 Restricted deposits with DAB

	Note	2020	2019
Local currency		**123,608**	112,123
Foreign currencies		**936,038**	775,927
	11.1.1	**1,059,646**	888,051

11.1.1 This represents non-interest bearing statutory reserves maintained with DAB as minimum reserve calculated at 8% for local currency and 10% of foreign currency deposits in accordance with Article 3 "Required Reserves Regulation" of the Banking Regulations issued by DAB.

11.2 This includes profit receivable on account of Murabaha investments, Sovereign sukuks and Murabaha facility.

	2020	2019
	AFN '000	
11.3 Receivable from financial institutions (FIs)	**197,402**	-
Provision on receivables from (FIs)	**(34,086)**	-
	163,316	-

This represents balances with two foreign banks, namely JSC Capital Bank and Tengri Banks. These have been re-classified from cash and bank to other assets by the management due to delay in repayments. Bank has also carried out an assessment of the financial strength of the two financial institutions and has accrued a general provision separately against these balances after considering the probability of default.

12 ISSUED, SUBSCRIBED AND PAID-UP SHARE CAPITAL

2020	2019		2020	2019
Number of shares			AFN '000	
126,700	124,780	Ordinary shares of AFN 10,000 each, fully paid in cash	**1,267,000**	1,247,800

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13 CAPITAL RESERVES

Article 93 "Reserve capital" of corporation and limited liability companies law of Afghanistan requires that Bank should transfer 5% of profit to capital reserves in order to compensate future possible losses.

14 DEPOSITS FROM CUSTOMERS

	Note	2020	2019
		----------- AFN '000 -----------	
Conventional			
Current deposits		6,300,453	5,167,428
Saving deposits	14.1	937,758	758,315
Term deposits	14.2	504,504	245,385
		7,742,714	6,171,128
Islamic			
Al Wadiah current deposits		872,728	705,404
Mudarabah saving deposits	14.3	1,071,606	797,634
Mudarabah fixed deposits	14.4	1,061,764	1,218,584
		3,006,098	2,721,622
Margin deposits			
Margin deposits - expired		16,021	41,158
Margin deposits - unexpired	14.5	1,464,072	1,247,378
		1,480,093	1,288,536
		12,228,905	10,181,286

14.1 Saving deposits carry interest ranging from 1% to 1.5% (2019: 1% to 1.5%) per annum.

14.2 Term deposits carry interest ranging from 1.25% to 2.75% (2019: 1.25% to 2.75%) per annum with maturity ranging from three months to two years (2019: three months to two years).

14.3 The profit disbursed during the year on the Mudarabah saving deposits ranged from 0.28% to 0.79% (2019: 0.46% to 0.90%) per annum based on monthly distribution of the return yielded on Islamic investments.

14.4 Profit distribution rates on murabaha fixed deposits during the year ranged from 0.56% to 1.59% (2019: 0.93% to 1.97%) per annum based on monthly distribution of the return on Islamic investments with maturity of one year (2019: One year).

14.5 Margin deposits unexpired represent the cash margin money held against bank guarantee which are not yet matured / expired and range from 5% to 100% of the guarantee amount.

15 DEPOSITS FROM FINANCIAL INSTITUTIONS

	Notes	2020	2019
		----------- AFN '000 -----------	
Deposits from Banks			
Demand Deposits of Banks		900,000	-
Deposits from OFI's			
Current deposits		1,450	3,249
Term deposits		954,219	28,759
		955,670	32,008
		1,855,670	32,008

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		Notes	2020	2019
			----------- AFN '000 -----------	
16	**OTHER LIABILITIES**			
	Interest payable on customer deposits		12,329	11,692
	Withholding tax		13,548	271
	Unearned commission on bank guarantees		36,383	18,752
	Accrued expenses		17,191	12,937
	Other liabilities		17,044	24,242
			96,495	67,894
17	**LEASE LIABILITY**			
	Balance as of 01 January 2020 upon adoption of IFRS 16		96,390	119,451
	Addition during the year		59,118	2,847
	Payment during the period - principal		(65,500)	(40,046)
	Accrued finance cost		9,392	12,393
	Exchange rate fluctuation		(113)	1,745
		17.1	99,286	96,390

17.1 This represents finance leases entered into with landlords against branches of bank. The bank has the option to extend the lease at the end of lease period

		Notes	2020	2019
			----------- AFN '000 -----------	
18	**CONTINGENCIES AND COMMITMENTS**			
	Contingencies			
	Contingencies - Bank guarantees issued		5,110,107	4,780,539
	Letters of credits		86,423	98,678
	Commitments - Un-used portion of Overdraft		27,833	58,181
			5,224,363	4,937,398
19	**NET INTEREST INCOME**			
	Interest income			
	Interest income on Capital Note		1,678	-
	Interest income on Placements		52,186	106,514
	Loans and advances		394,434	316,491
	Bonds and Sukuk		7,733	7,126
	Total interest income		456,031	430,131
	Interest expense			
	Customer deposits	19.1	32,349	44,579
	Short term borrowing (inter-bank deal)		-	21
	Deposits from financial institutions		16,061	134
	Total interest expense		48,410	44,734
	Net interest income		407,621	385,397
19.1	**Interest expense on customers deposits**			
	Term deposits		21,593	30,149
	Saving deposits		10,757	14,430
			32,349	44,579

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		Notes	2020	2019
			AFN '000	
20	**NET FEE AND COMMISSION INCOME**			
	Fee and commission income			
	Commission on bank guarantees		94,049	66,985
	Commission on letter of credits		2,803	1,773
	Loan processing fee		23,574	15,797
	Fund transfer fee		113,554	98,697
	Deposit accounts servicing		25,342	3,603
	Total fee and commission income		259,322	186,855
	Fee and commission expense			
	Inter bank transaction fee		(6,677)	(7,966)
	Net fee and commission income		252,645	178,889
21	**OTHER INCOME**			
	Loss on diposal of investment in associate		-	(17,608)
	Loss on sale of fixed assets		-	(16)
	Gain on sale of investment in gold		3,571	21,868
	Recovery of loan previously written off		82,216	58,675
	Other		3,546	1,007
			89,333	63,926
22	**EMPLOYEE COMPENSATION**			
	Salaries and wages		129,231	130,647
	Staff bonus		844	1,752
	Staff welfare		97	196
			130,172	132,595
23	**ADMINISTRATIVE EXPENSE**			
	Security guards expenses		38,189	38,702
	Software annual maintenance		17,641	14,760
	Insurance		34,306	29,899
	Communication		9,741	19,243
	Advertisement		24,779	27,128
	Travelling and conveyance		6,477	14,319
	Utilities		11,948	10,795
	Fuel		2,915	4,546
	Repair and maintenance		11,578	11,061
	Stationery and printing		6,106	6,070
	Donation	23.1	41,395	-
	Food expenses		5,926	8,433
	Staff training		1,924	2,119
	Legal & Audit fee		7,258	7,428
	Other expenses		33,545	31,344
			253,728	225,847

23.1 During the period, the COVID 19 severely affected Afghanistan and required the government to impose strict procedures to contain the virus. These SOPs hampered the business activities and resulted in partial economy shut down for several months. Keeping in view the plight of the poorest sections of society, particularly labour having lost their daily wages while depend on either the government support or private charity for food; the bank decided to contribute a substantial amount

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to donate for this most vulnerable section. This support was made through Ghazanfar Foundation, which has vast experience in charity work, and is a related party.

	Notes	2020	2019
		----------- AFN '000 -----------	
24 TAXATION			
Current	24.1	54,338	12,402
Prior		6,310	-
		60,648	12,402

24.1 Effective tax rate reconciliation is as follows:

	2020	2019
Accounting profit before tax	227,957	141,956
Tax at applicable rate of 20% (2019: 20%)	45,591	28,391
Non-deductible tax expense	25,031	13,673
Dividend - deductible expense	-	(19,300)
Other deductible expenses	(16,284)	(10,362)
	54,338	12,402

25 TRANSACTIONS AND BALANCES WITH RELATED PARTIES

Parent and ultimate controlling entity

The Bank is owned by individual shareholders owing equity shares in different proportions.

Associated entities

Associated entities include all sister companies under Ghazanfar Group includuding Ghazanfar Naft and Gas, Ghazanfar investments and Ghazanfar Foundation.

Key management personnel

Key management personnel includes Board of Supervisors, Chief Executive Officer, Deputy Chief Executive Officer, Chief Financial Officer, Chief Credit Officer, Chief Operation Officer and Chief Islamic Banking Officer.

Transactions with related parties

Transactions and balances with related parties, including remuneration and benefits paid to key management personnel under the terms of their employment are as follows:

	2020	2019
	----------- AFN '000 -----------	
Balances at year/ period end		
Shareholders		
Prepayment/ Security Deposit for Hairatan Branch	53,306	77,460
Deposits	5,840	10,922
Key management personnel		
Deposits	11,082	3,738
Associated entities		
Loans and advances	69,955	69,385
Deposits	14,097	3,489
Non-Funded facility	-	3,873
Transaction during the period		
Key management personnel		
Short term employee benefits	21,123	21,388
Associated entities		
Interest income on loans and advances	5,952	6,698
Rent paid	154	156
Donation paid	41,395	-

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26 FINANCIAL ASSETS AND LIABILITIES

Accounting classifications and fair values

The table below sets out the carrying amounts of the Bank's financial assets and financial liabilities:

	Note	Fair value through profit or loss	At amortized cost	Fair value through OCI	Total carrying amount
		...AFN '000'...			
2020					
Cash and cash equivalents	5	-	6,890,521	-	6,890,521
Placements	6	-	1,225,890	-	1,225,890
Investments	7	-	1,676,605	136,759	1,813,364
Loans and advances to customers	8	-	4,364,717	-	4,364,717
Loans to financial institutions		-	-		-
Others assets	11	-	1,302,872	-	1,302,872
		-	15,460,605	136,759	15,597,364
Deposits from customers	14	-	12,228,905	-	12,228,905
Deposits from financial institutions	15	-	1,855,670	-	1,855,670
Other liabilities	16	-	46,564	-	46,564
Lease liability	17	-	99,286	-	99,286
		-	14,230,425	-	29,827,790
2019					
Cash and cash equivalents	5	-	4,950,867	-	4,950,867
Placements	6	-	2,227,099	-	2,227,099
Investments	7	78,434	-	282,659	361,093
Loans and advances to customers	8	-	2,876,288	-	2,876,288
Loans to financial institutions		-	70,000		70,000
Others assets	11	-	1,078,460	-	1,078,460
		78,434	11,202,714	282,659	11,563,807
Deposits from customers	14	-	10,181,286	-	10,181,286
Deposits from financial institutions	15	-	32,008	-	32,008
Other liabilities	16	-	48,871	-	48,871
Lease liability	17	-	96,390	-	96,390
		-	10,358,555	-	21,922,362

26.1 The fair values of financial assets and financial liabilities approximates their carrying amounts at the reporting date. Held for trading investment categorized in Level 1 of IFRS 13 while available for sale investments are categorized in Level 2 of IFRS 13.

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27 FINANCIAL RISK MANAGEMENT

Introduction and overview

The Bank has exposure to the following risks from its use of financial instruments:

a) credit risk
b) liquidity risk
c) market risks

This note presents information about Bank's exposure to each of the above risks, the Bank's objectives, policies and processes for measuring and managing risk, and the Bank's management of

Risk management framework

The Board of Supervisor has overall responsibility for the establishment and oversight of the Bank's risk management framework. The Board has established the Management Board, Asset and Liability Committee (ALCO), Risk Management committe of the board (RMCB) and a Credit Committee which are responsible for developing and monitoring Bank's risk management policies in their specified areas. All Board committees have both executive and non-executive members and report regularly to the Board of Supervisors on their activities. The Bank's Management Board is assisted in these functions by the internal audit department.

The Bank's Internal Audit and Compliance Departments are responsible for monitoring compliance with the Bank's risk management policies and procedures, and for reviewing the adequacy of the risk management framework in relation to the risks faced by the Bank.

27.1 Credit risk

Credit risk is the risk of financial loss to the Bank if a customer or counterparty to a financial instrument fails to meet its contractual obligations, and arises principally from the Bank's loans and advances to customers and placements with other banks. For risk management reporting purposes, the Bank considers and consolidates all elements of credit risk exposure.

Management of credit risk

The Board has delegated responsibility for the management of credit risk to its Bank's Credit Committee. Credit department reporting to the Bank Credit Committee is responsible for oversight of the Bank's credit risk.

A separate credit department has been established by the Bank that is responsible for oversight of the Bank's credit risk and which is reportable to the Credit Committee. The Credit department is headed by Chief Credit Officer (CCO). Chief Credit Officer along with credit department staff looks after credit risk matters and conduct portfolio analysis for managing credit risk.

The Bank has established and maintained a sound loan portfolio in terms of well-defined credit policy approved by the Board. The credit evaluation system comprises of well designed credit appraisal, sanctioning and review procedures for the purposes of emphasizing prudence in lending activities and ensuring the high quality of asset portfolio.

The amount of credit risk in this regard is represented by the carrying amounts of the assets at the reporting date. Exposure to credit risk is managed through regular analysis of borrower to meet interest and capital repayment obligations and by changing their lending limits where appropriate. Exposure to credit risk is also managed against personal guarantees of the borrowers and mortgage of immoveable property duly registered with the court of law.

In addition to the above, there were no lending commitments which is pending for disbursement

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except as disclosed in Note 17.

Past due but not impaired loans

Past due but not impaired loans are those for which contractual interest or principal payments are past due but the Bank believes impairment is not appropriate.

Allowances for impairment

The Bank establishes an allowance for impairment losses on assets carried at amortized cost that represents its estimate of incurred losses in its loan portfolio calculated in accordance with the DAB

Write-off policy

The Bank recognized 100% provision on loans categorized as loss. These loans are kept on books of account for additional six months and after that loans would be written off as per Da Afghanistan bank regulations. This determination is reached after considering information such as the occurrence of significant changes in the borrower's financial position such that the borrower can no longer pay the obligation, or that proceeds from collateral will not be sufficient to pay back the entire exposure. Before allowing to written off, it is ensured that all possible avenues of recovery, inclusive of legal action are exhausted or legal action is not advisable.

The Bank holds collateral against loans and advances in the form of mortgage interest over residential and/or commercial properties and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of borrowing and generally are not updated except when a loan is individually assessed as impaired.

Concentration of credit risks by sector

All the loans have been disbursed in geographical territory of Afghanistan. The Bank monitors concentrations of credit risk by sector. Exposure to any sector should not exceed 40% of the regulatory capital at any time and as of the balance sheet date, except for Petroleum and Lubricants

Cash and cash equivalents

The Bank held cash and cash equivalents of AFN 6,890 million (2019: Afs 4,951 million) which represents its maximum credit exposure on these assets. The cash and cash equivalents are held with central bank and other banks.

Settlement risk

The Bank's activities may give rise to risk at the time of settlement of transactions and trades. Settlement risk is the risk of loss due to failure of an entity to honor its obligation to deliverable cash, other assets as contractually agreed.

27.2 Liquidity risk

Liquidity risk is the risk that the Bank will encounter difficulty in meeting obligations from its financial liabilities that are settled by delivering cash or another financial asset.

Management of liquidity risk

The Board ensures that the Bank has necessary tools and framework to cater the requirements of liquidity risk management and the Bank is capable to confronting uneven liquidity scenarios. The Bank's management is responsible for the implementation of sound policies and procedures keeping in view the strategic direction and risk appetite specified by the Board. Asset & Liability Committee (ALCO) is entrusted with the responsibility of managing the mismatch in maturities to ensure sufficient available cash flow to meet possible withdrawal of deposits, other commitment or challenges associated with sudden changes in market conditions, whist enabling the Bank to pursue valued business opportunities. For day to day liquidity risk management integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problem.

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The Bank relies on deposits from customers as its primary source of funding. Deposits form customers generally has shorter maturities and large proportion of them are repayable on demand. For day to day liquidity risk management integration of liquidity scenario will ensure that the Bank is best prepared to respond to an unexpected problem.

Exposure to liquidity risk

The key measure used by the Bank for managing liquidity risk is the ratio of net liquid assets to deposits from customers. For this purpose net liquid assets are considered as including cash and cash equivalent less any deposits from banks. A similar, but not identical, calculation is used to measure the Bank's compliance with the liquidity limit established by the Bank's Regulator (Da Afghanistan Bank). Detail of the reported Bank ratio of net liquid assets to deposits from customers at the reporting date and during the reporting period was as follows:

	2020	2019
Closing balance for the year ended	56%	54%
Average for the period	52%	56%
Maximum for the period	60%	64%
Minimum for the period	47%	50%

Maturity analysis for financial liabilities

	Notes	Carrying amount	Gros Cash Outflow	Less than 1 month	1-3 months	3 months to 1 year	1-5 years	More than 5 years
					AFN '000'			
2020								
Deposits from customers	14	**12,228,905**	**12,228,905**	**7,189,202**	**2,009,364**	**1,464,072**	**1,566,268**	-
Deposits from financial institutions	15	**1,855,670**	**1,855,670**	**851,450**	**50,000**	**29,028**	**925,192**	-
Other liabilities	16	**96,495**	**96,495**	-	-	-	-	-
Lease liability	17	**99,286**	**99,286**	-	-	-	-	-
		14,280,356	**14,280,356**	**8,040,652**	**2,059,364**	**1,493,100**	**2,491,459**	-
2019								
Deposits from customers	14	10,181,286	10,181,286	5,913,990	1,555,949	1,247,378	1,463,969	-
Deposits from financial institutions	15	32,008	32,008	-	-	32,008	-	-
Other liabilities	16	48,871	48,871	40,428	11,692	28,759	-	-
Lease liability	17	96,390	96,390	1,687	342	18,225	67,973	8,162
		10,358,555	10,358,555	5,956,105	1,567,983	1,326,370	1,531,942	8,162

The above table shows the undiscounted cash flows on the Bank's financial liabilities on the basis of their earliest possible contractual maturity. The gross nominal inflow/(out flow) disclosed in the above table is the contractual, undiscounted cash flow on the financial liability.

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27.3 Market risks

Market risk is the risk that changes in market prices, such as interest rate, equity prices, foreign exchange rates and credit spreads (not relating to changes in the obligor's/issuer's credit standing) will affect the Bank's income or the value of its holding of financial instruments. The objective of market risk management is to manage and control market risk exposures with in acceptable parameters, while optimizing the return on risk.

Management of market risks

To manage and control market risk, a well defined limits structure is in place. These limits are reviewed, adjusted and approved periodically. Overall authority for market risk is vested in ALCO. The Bank's Assets and Liability Committee (ALCO) is responsible for the development of detailed risk management policies and day to day review of their implementation.

Exposure to interest rate risk

The Bank's risk to which not-trading portfolios are exposed is the risk of loss from fluctuations in the future flows or fair values of financial instrument because of change in market interest rates. Interest rate risk managed principally through monitoring interest rate gaps and by having pre-approved limits for reprising bands. The ALCO is the monitoring body for compliance with these limits and is assisted by Risk Management in its day to day monitoring activities. The Bank holds the instruments which do not carry variable interest rate and are not subject to future changes in market interest rates.

28 CAPITAL MANAGEMENT

Regulatory capital

Da Afghanistan Bank (DAB) sets and monitors capital requirements for all Banks. Bank is required to maintain at all times the paid up capital plus reserves in excess of AFN 1 billion and regulatory capital to be 12% of the risk weighted assets. The capital adequacy of the Bank is assessed in two tiers as per regulations of the DAB.

- Tier 1 or core capital, consisting of the highest quality capital elements that fully meet all the essential characteristics of capital; to be 6% of risk weighted assets.
- Tier 2 or supplementary capital, which includes other instruments which, to a varying degree, fall short of the quality of Tier 1 capital, but nonetheless contribute to the overall strength of a bank as a going concern.

Regulatory capital is the sum of Tier 1 and Tier 2 capital and Tier 2 capital cannot exceed amount of Tier 1 capital. The Bank complies with these regulations.

The Bank's regulatory capital position as on December 31, 2020 is as follows:

	2020	2019
	AFN '000	
Tier 1 capital		
Share holders' equity	**1,745,978**	1,603,811
Less: Other Equity Components	**24,230**	(912)
Less: Profit for the period / year	**(167,309)**	(129,554)
Less: Intangible assets	**(30,507)**	(57,351)
Net Deferred Tax Assets	**(6,058)**	-
Total tier 1 (core) capital	**1,566,334**	1,415,994

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	2020	2019
	AFN '000	
Tier 2 capital		
General allowances on Standard Advances	26	18
Revaluation Reserves on Available-for Sale Investments	-	410
Add: Profit for the year	167,309	129,554
Total tier 2 (supplementary) capital	167,335	129,982
Total Regulatory capital = Tier 1 + Tier 2	1,733,669	1,545,976
Risk-weight categories		
0% risk weight:		
Cash in Afghani and fully-convertible foreign currencies	915,930	889,639
Direct claims on DAB	6,411,620	3,894,564
Loans Collateralized by Blocked Deposits	267,625	28,000
Others	407,797	-
Total	8,002,971	4,812,203
0% risk-weight total (above total x 0%)	-	-
20% risk weight:		
Demand Deposits with Banks	1,990,367	1,054,715
Time Deposits with Banks	1,225,890	2,227,099
Guaranteed by Multilateral Lending Institutions	-	42,000
Total	3,216,257	3,323,814
20% Risk-Weight Total (Above Total x 20%)	643,251	664,763
100% risk weight		
Loans gross amount	3,885,000	3,022,156
Property & Equipment's	385,215	346,813
All Other Assets	783,468	580,059
Total	5,053,683	3,949,028
100% Risk-Weight Total (Above Total x 100%)	5,053,683	3,949,028
Off-balance-sheet items with 0% Credit Conversion Factor		
Undrawn loan and overdraft facilities	27,833	58,181
Guarantees	-	-
Total	27,833	58,181
0% Credit Conversion Factor Total (Above Total x 0%)	-	-
Off-balance-sheet items with 20% Credit Conversion Factor		
Commercial letters of credit	-	-
100% Risk Weight	57,826	84,046
Total	57,826	84,046
20% Credit Conversion Factor Total (Risk-Weighted Total x 20%)	11,565	16,809

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	2020	2019
Off-balance sheet items with 100% Credit Conversion Factor		
	------------- AFN '000 -------------	
Guarantees and Standby Letters of Credit		
20% Risk Weight	476,939	15,943
100% Risk Weight	1,675,438	3,468,076
Total	2,152,377	3,484,019
100% Credit Conversion Factor Total (Risk-Weighted Totals x 100%)	2,152,377	3,484,019
	7,860,876	8,114,619
Tier 1 Capital Ratio	19.93	17.45
Regulatory Capital Ratio	22.05	19.05

29 GENERAL

No significant reclassification/rearrangement has been made in these audited financial statements. Figures have been rounded off to the nearest Thousand of AFN.

30 DATE OF AUTHORISATION FOR ISSUE

These financial statements were authorized for issue on March 21, 2021 by the Board of Supervisors of the Bank. GTA

Chief Financial Officer

Chief Executive Officer

Chairman